

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7953

BILL NUMBER: SB 524

NOTE PREPARED: Mar 25, 2005

BILL AMENDED: Mar 24, 2005

SUBJECT: Tax Sales and Redevelopment.

FIRST AUTHOR: Sen. Wyss

FIRST SPONSOR: Rep. Hinkle

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill contains the following provisions:

Property Tax Sales: This bill amends the procedures for property tax sales and redemption of property sold in property tax sales.

Tax Sales and Redevelopment: The bill provides that the purchaser of a certificate of sale at an expedited tax sale may: (1) inspect the property; (2) perform any repair necessary to satisfy an order issued under the unsafe building law; and (3) perform any act necessary to abate a public nuisance. It provides that the expenditures made by the purchaser in taking these actions are included in the cost of redeeming the property. It also provides that certain costs of enforcing the unsafe building law for a particular property become a lien on the property of an officer or a director of the property owner or a shareholder, a partner, a member, or another person owning more than a 10% interest in the property owner. The bill specifies the costs to be considered in the appraisal of property under certain eminent domain proceedings initiated by a redevelopment commission.

The bill provides that the failure of the county treasurer to certify the tax sale list before July 2 does not invalidate an otherwise valid sale. It requires that property sold together must be redeemed together. It provides that the county auditor is not required to use certified mail when mailing notice to a person with a mailing address outside the United States. It specifies that the costs of giving notice include postage, certified mailing fees, and publication costs. The bill also provides that the lien of a purchaser at a tax sale is superior to all liens except: (1) a lien granted priority under federal law; and (2) a lien for taxes and special assessments that accrue after the sale.

The bill repeals the provisions requiring the filing of a tax sale surplus fund disclosure form. It allows all counties to use a provision currently applicable only to the metropolitan development commission in Marion County that allows the county to acquire certain property at tax sales for redevelopment purposes. It also amends the definition of "blighted area" for purposes of the planning and development law.

Clerk-Treasurer: This bill allows a third class city that adopts second class city status to elect a city clerk-treasurer instead of electing a city clerk and appointing a city controller.

Northwestern Indiana Regional Planning Commission: The bill allows the Northwestern Indiana Regional Planning Commission to pay a claim or purchase order without obtaining a vendor's signature. It also provides that a claim for reimbursement of mileage, meal, and lodging expenses to attend a state board of accounts conference may not be denied if the claim meets statutory requirements.

Local Fiscal Officer Mileage Reimbursement: The bill allows a municipality to adopt an ordinance providing for meal expense advances for a municipal employee who will be traveling on official municipal business.

Ten-Year Loan Term: The bill increases the maximum term of a loan that a city or town may enter into from five to ten years.

Elected County Officer Compensation: The bill provides that in the year in which a newly elected county officer takes office, the county fiscal body may change the compensation for holding the county office if: (1) the county officer requests the compensation change or, in the case of the county executive body, a majority of the county executive body requests the change; and (2) the county fiscal body approves the change.

Airport Development Zones: The bill provides that for purposes of airport development zones, the "base assessed value" is determined as of the assessment date immediately preceding the effective date of the initial resolution designating an airport development zone, regardless of the date of the hearing at which the initial resolution is finally approved. It allows the airport authority board to determine the portion of tax proceeds that will be allocated to a debt service fund and dedicated to the payment of principal and interest on bonds of the airport authority. It provides that tax proceeds remaining after the allocation to the debt service fund shall be deposited in a project fund and dedicated to the reimbursement of expenditures made for a qualified airport development project. The bill also provides that tax increment financing proceeds in an airport development zone may be used to pay bonds issued by an eligible entity to pay for qualified airport development projects in the airport development zone or serving the airport development zone.

Emergency Warning Sirens: The bill provides that emergency warning sirens may be funded under the county and municipal Barrett Law provisions.

Township Board Salaries: The bill provides that members of a township board may by unanimous vote reduce their salaries by any amount.

Speed Limit Investigations: The bill sets circumstances when an engineering and traffic investigation is required to be performed for a speed limit change.

Residential Redevelopment Areas: This bill authorizes the designation of residential redevelopment areas in Indianapolis and second class cities. It provides for the acquisition of real property subject to a tax sale for purposes of residential redevelopment. It also provides an assessed valuation deduction for the rehabilitation

or redevelopment of residential property in a residential redevelopment area.

Land Valuation Commissions. The bill eliminates the county land valuation commission and requires the township assessor to set land values.

Sales Disclosure Requirements. The bill amends sales disclosure requirements.

Property Tax Appeals. The bill requires the taxpayer to file a petition with the county assessor to initiate a property tax appeal.

County Property Tax Assessment Board of Appeals. The bill provides that the term of a member of the property tax assessment board of appeals is one year. Current terms expire December 31, 2005.

Effective Date: (Amended) January 1, 2005 (retroactive); July 1, 2005.

Explanation of State Expenditures: *Residential Redevelopment Areas:* The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is indeterminable. (See discussion of this provision under *Explanation of Local Revenues.*)

(Revised) *Sales Disclosure Forms.* The bill adds to the requirements that the Department of Local Government Finance (DLGF) must prescribe on a sales disclosure form. The DLGF must also include the telephone number of each transferor and transferee and the person that prepared the form. It is presumed that the DLGF should be able to absorb any additional expenditures associated with this provision given its existing budget. should not be significant.

Tax Sale Surplus Disclosure. The State Board of Accounts (SBA) will no longer be required to prescribe the tax sale surplus fund disclosure form. This provision should have little impact, if any, on the SBA.

Explanation of State Revenues:

Explanation of Local Expenditures: *Property Tax Sales:* The bill provides that the county auditor is not required to mail certain notices by certified mail to a person with a mailing address outside the United States. The bill expands the information that the county auditor must maintain on a tax sale record. The bill provides that when real property is redeemed and the certificate of sale is surrendered, the county auditor must issue a warrant to the purchaser of the certificate of sale, or assignee, in an amount equal to the remainder of:

- (1) the amount received by the county treasurer for redemption; minus
- (2) the remainder of:
 - (A) the amount of the minimum bid for which the tract or item of real property was last offered for sale; and
 - (B) the amount for which the certificate of sale was sold.

The overall impact of these provisions on local expenditures is indeterminable and will depend, in part, on current county practices.

Tax Sale Surplus Fund Disclosure Form. The bill repeals the section of the law that deals with a transfer of property from a delinquent taxpayer to another person after the property is sold at a tax sale and before the tax sale purchaser is issued a tax sale deed. The section repealed requires a taxpayer to file a tax sale surplus fund

disclosure form in duplicate with the county auditor before the taxpayer may transfer title to property if the taxpayer owes delinquent taxes on the property; the property was sold at a tax sale; and a part of the tax sale purchaser's bid on the property was deposited into the tax sale surplus fund. The county auditor will no longer have to stamp the tax sale surplus fund disclosure form under this section of the law to indicate the county auditor's receipt of the form and remit the duplicate to the taxpayer. See **Explanation of Local Revenues** below.

Tax Sales and Redevelopment: This provision will allow counties to acquire properties, on which taxes are delinquent and are considered unsafe buildings, for redevelopment purposes. This provision could lead to such properties being placed back on the property tax rolls more promptly.

Eminent Domain Proceedings: The bill also includes various expenses, such as fees and construction costs, and specific conditions that must be included in an appraisal that is made for the purpose of an eminent domain proceeding. Such factors could affect a property's fair market value. The fiscal impact of the provision will vary depending on the difference in appraised values.

The bill also removes age as a means of designating an area undesirable and thus blighted. This change in definition could cause some areas to not be considered blighted and could potentially reduce the number of areas that could be acquired through eminent domain.

Clerk-Treasurer: This provision of the bill allows a third class city that wishes to adopt second class status to choose to elect a clerk-treasurer instead of having both an elected city clerk and appointed city controller. Combining the two positions may reduce salary and benefit expenditures depending on the resulting amounts paid after the consolidation.

Northwestern Indiana Regional Planning Commission: Requiring the Northwestern Indiana Regional Planning Commission to follow the same general claim payment policies as the state could affect local expenditures if following state policies would have an impact on the timing of the payment which could have an impact on the expense. The impact is indeterminable and will depend on existing local policies.

Local Fiscal Officer Mileage Reimbursement: This provision of the bill is intended to clarify that mileage shall be reimbursed for attending conferences. The fiscal impact is dependent on how many local units have interpreted the reimbursement to be optional, how often reimbursements are required to be paid, and the amount of such reimbursements.

Ten-Year Loan Term: Increasing the maximum loan term for cities and towns will allow for more flexibility, however, interest expenses will also increase. The fiscal impact of this provision is dependent on local action.

Elected County Officer Compensation: The bill allows the compensation of a newly elected county officer to be changed if it is requested by the officer and then approved by the county fiscal body. The fiscal impact of this provision is dependent on if the change is an increase or decrease in compensation.

Emergency Warning Sirens: The bill adds emergency warning siren to the list of improvements for which a county or municipality may make expenditures with its Barrett Law funds. The bill does not require any additional expenses.

Township Board Salaries: A township could experience cost savings if the members of a township's legislative

body vote to reduce their salaries. The fiscal impact of this provision is dependent on local action.

Speed Limit Investigations: The bill also sets circumstances when an engineering and traffic investigation is required to be performed for a speed limit change. The fiscal impact of this provision is dependent on if the circumstances in a particular locality lead to additional or fewer investigations being performed.

Residential Redevelopment Areas: The bill permits the Indianapolis Metropolitan Development Commission (MDC) and the redevelopment commissions in second class cities to establish residential redevelopment areas in which tax incentives would be provided for construction of new homes and rehabilitation of existing homes. The criteria for a residential redevelopment area are as follows:

- (1) The area must previously have been developed as a residential or commercial area.
- (2) At least 20% of the area's real estate parcels are vacant or contain buildings requiring rehabilitation.
- (3) At least 50% of the families and individuals living in the residential redevelopment area earn less than the area's median income.
- (4) That there is a documented need for affordable housing in the city.

The bill also requires that at least 40% of the housing in a residential redevelopment area will be leased or sold to individuals earning no more than 80% of the area's median income. Reportedly, these criteria could potentially limit the size of residential redevelopment areas to eight to ten square city block areas. The bill requires the MDC or a redevelopment commission to adopt a plan for a residential redevelopment area and to obtain approval of the plan from the city's legislative body. In addition, the MDC or redevelopment commission must obtain approval of the plan from the Indiana Housing Finance Authority (IHFA) if tax incentives are going to be provided. Once the approvals have been obtained, the MDC or redevelopment commission must adopt a resolution including the redevelopment area plan and hold a public hearing on the plan. After the public hearing, the MDC or redevelopment commission must either rescind, amend, or confirm the resolution.

The bill allows an MDC or redevelopment commission to transfer property located in a residential redevelopment area that has failed to be sold at the tax delinquent property sale to an entity that agrees to develop the property. The entity must agree to develop the property in accordance with the residential redevelopment area plan adopted by the MDC or redevelopment commission.

Also, see **Explanation of Local Revenues** below.

(Revised) *Land Valuation Commissions.* The bill eliminates the county land valuation commission and requires the township assessor to set land values. This provision will reduce local expenditures by an indeterminable amount. The specific impact will depend on current local practices.

(Revised) *Sales Disclosure Requirements.* The bill amends sales disclosure requirements. Each sales disclosure form must be stamped by the county assessor. The county assessor must give the person presenting the form the opportunity to correct deficiencies. The county or auditor of a consolidated city must forward the sales disclosure form data to the DLGF and Legislative Services Agency in an electronic format. It is presumed that any additional expenditures that the above provisions might require can be absorbed in the local units' existing budgets.

(Revised) *Property Tax Appeals.* The bill requires the taxpayer to file a petition with the county assessor to

initiate a property tax appeal. It is presumed that the county assessors will be able to absorb any additional expense associated with this provision given existing budgets.

(Revised) *Property Tax Assessment Board of Appeals*. The bill provides that the term of a member of the property tax assessment board of appeals is one year. Current terms expire December 31, 2005. These provisions are not expected to have an impact.

Explanation of Local Revenues: *Property Tax Sales*: Under existing law, before July 2 of each year, the county treasurer must certify to the county auditor a list of real property on which property taxes or special assessments certified to the county auditor for collection by the county treasurer from the prior year's spring installment or before are delinquent. The bill provides that failure of the county treasurer to certify the list before July 2 does not invalidate an otherwise valid sale. The bill provides that a misstatement in the common description of the property does not invalidate an otherwise valid sale. These provisions could result in counties sales not being invalidated, in which case the county could keep revenue generated by the sale..

The bill includes items of real property and certificates of sale to existing provisions regarding tracts for sale. This provision expands what is available for sale which could increase revenue generated from sales. The impact is indeterminable.

The bill adds a provision pertaining to the total amount of money required for the redemption of real property. In addition to other provisions already in statute, the bill requires that costs of giving notice, postage, certified mailing fees, and publication costs must also be included. This provision could increase revenue obtained from redemptions.

Tax Sale Surplus Fund Disclosure Form: Currently, if a person seeks to make a claim from the surplus fund in relation to property that was acquired from a delinquent taxpayer, the county auditor may not issue a warrant for the claim unless the person is listed on the surplus fund disclosure form. Because this bill discontinues the use of the disclosure form, a person wishing to make a claim from the surplus fund must file a verified petition with the court which must then issue an order to the county auditor. Additional revenue may be generated from associated court filing fees. See also **Explanation of Local Expenditures**.

Airport Development Zones: The airport development zone is a property tax allocation area. Currently, these are authorized in Marion, Vigo, Vanderburgh, and Allen counties, and in Gary. The bill provides that the base AV computation for purposes of an airport development zone includes the net AV of tangible property for the assessment period immediately preceding the date the airport authority adopts its preliminary resolution designating the airport development zone, regardless of the date that the final resolution establishing the airport development zone is adopted by the airport authority. If an airport authority adopted a preliminary resolution, but either never adopted a final resolution or adopted one several assessment periods later so the AV value had changed, the base AV would relate to the adoption date of the preliminary resolution regardless of the second resolution.

Under existing law, except in Vanderburgh County, the incremental property taxes captured in the airport development zone are to be used for airport development projects in the zone. These taxes, upon determination of the airport authority, may be used for employee training for the project, with the remainder allocated to debt service. Any taxes exceeding the amount required for bond principal and interest payments; lease rental or lease payments, or reserve requirements are to be paid to local tax units. The bill provides for a third distribution before payment of excess incremental property taxes to local units. This distribution would be to a project fund

and dedicated to the reimbursement of expenditures made by the airport authority for an airport development project that is in the airport development zone or is serving the airport development zone.

Residential Development Areas: The bill provides an AV property tax deduction for the increase in the assessed value of a residential property due to redevelopment or rehabilitation, provided the property is located in a residential redevelopment area. The deduction is a specified percentage of the AV increase as presented in the table below. The deduction may be claimed for 10 years.

Deductible Percentage of AV Increase	Duration of Deduction
100%	1 st through 3 rd years deduction is claimed.
50%	4 th through 6 th years deduction is claimed.
40%	7 th year deduction is claimed
30%	8 th year deduction is claimed
20%	9 th year deduction is claimed
10%	10 th year deduction is claimed

The bill defines *redevelopment* as the construction of a new residential structure on unimproved real estate or real estate where an old structure is demolished and replaced by a new residential structure. *Rehabilitation* is defined as the remodeling, repair, or betterment of residential property, or enlargement or extension of property, in which depreciable rehabilitation expenses are at least \$25,000.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund. These impacts are indeterminable, but would be eliminated as deductions in the residential redevelopment areas phase-out and expire.

The bill limits the number of residential redevelopment areas to: (1) two in Indianapolis; (2) two in a second class city in which at least 20% of the households in the city are below the poverty level as established by the most recent U.S. Census; and (3) one in all other second class cities. Currently, there are 19 second class cities that would be affected by this bill. Two cities (Carmel and Columbus) that have met the second class city population requirement, but have not adopted second class status, are not expected to meet other distress criteria for residential redevelopment areas. In addition, only four of the cities (Bloomington, East Chicago, Gary, and Muncie) meet the poverty requirement described in (2) above. So a statewide maximum of **25** residential redevelopment areas could potentially be established under this bill. In addition, the distress criteria and income requirements for renters and home purchasers in the residential redevelopment areas could potentially limit the size of a typical redevelopment area to four to eight square blocks. (See explanation of distress criteria under *Explanation of Local Expenditures*.) Assuming that cities establish residential redevelopment areas, the rate at which construction and rehabilitation will proceed in each area is indeterminable. However, in most residential redevelopment areas, redevelopment projects qualifying for the deduction could potentially occur over several years and not accrue over a brief period of time.

Potential Secondary Tax Impacts: To the extent that residential redevelopment areas encourage additional construction work in counties, these areas would affect revenue from local option income taxes (CAGIT, COIT, and/or CEDIT). The extent of this potential impact is indeterminable.

State Agencies Affected: Department of State Revenue, Department of Local Government Finance.

Local Agencies Affected: Counties, cities, towns, county and township redevelopment commissions, Marion County Redevelopment Commission, Indianapolis Metropolitan Development Commission, redevelopment commissions in second class cities, some counties and county auditors, airport authorities, and the Northwest Indiana Regional Planning Commission.

Information Sources: Mike Higbee, Development Concepts, Inc., (317) 262-9347. *Census 2000 Summary File 3 (SF 3) - Sample Data*, U.S. Census Bureau, <http://factfinder.census.gov>. *Building Permits Database*, U.S. Census Bureau, <http://www.census.gov/const/www/permitsindex.html>.

Fiscal Analyst: Valerie Ruda, 317-232-9867; Jim Landers, 317-232-9869; Bernadette Bartlett, 317-232-9586.